



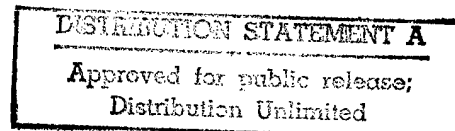
# Testimony

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Strategic Defense Initiative Organization  
Management Information and Control Issues

Statement of  
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Before the  
Subcommittee on Legislation and National Security  
Committee on Government Operations  
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss management information and control issues associated with contracting for the Strategic Defense Initiative (SDI) program.

In our July 1986 report,<sup>1</sup> we noted that the Strategic Defense Initiative Organization (SDIO) had implemented a contract reporting system to provide essential contract data it needed. We also reported that the system lacked complete contract data, such as types of contractors (large businesses or small businesses) and the extent of competition.

As you requested, we recently updated that report and found that the concerns raised in our July 1986 report continue.<sup>2</sup> SDIO stated that its contract reporting system is not used as a management tool for the SDI program, but to provide information. However, the lack of adequate data on contracts awarded to carry out the objectives of the SDI program hinders SDIO's efforts to be responsive to congressional needs for information to fulfill its oversight responsibilities.

The contract reporting system contained information on more than \$4.6 billion in fiscal years 1985 through 1987 funds obligated on

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<sup>1</sup>Strategic Defense Initiative Program: Information on Contracting and Other Activities (GAO/NSIAD-86-151FS).

<sup>2</sup>Appendix I contains details on the results of our current work performed at SDIO.

contract awards. We found that the types of contractors that received contract awards totaling about \$4.5 billion, or 98 percent of the obligated funds, were not identified. We also found that the extent of competition was not identified for contract awards totaling about \$1.7 billion, or 37 percent of the obligated funds.

SDIO has recently taken actions to more completely identify SDI funded contract awards, including the types of contractors awarded SDI contracts and the extent of competition in the SDI program. In January 1988, SDIO requested and obtained verbal approval from the Department of Defense's (DOD's) Washington Headquarters Services to add a specific code to identify SDI contract awards in DOD's DD-350 system. This system collects procurement information on all DOD prime contract awards above \$25,000 and includes most of the essential contract data previously identified by SDIO for its contract reporting system.

Although SDIO stated that its contract reporting system is not a management tool, it appears that contract reporting weaknesses may be linked to a more broader concern, which is SDIO's need to implement a formal internal management control program.

In our report issued in November 1987,<sup>3</sup> we noted that SDIO needed to improve its ability to provide timely and effective management direction and oversight of the systems analysis and battle management program. SDIO has experienced several problems that result from inefficiencies in contracting and inadequate oversight relative to existing work directives. The problems, if uncorrected, could reduce SDIO's ability to provide needed information for an informed systems development decision planned for the early 1990s. We also reported that SDIO needed to implement a formal internal management control program. The absence of such a program has resulted in poor program documentation and limited dissemination of program information. The absence has also prevented managers from having reasonable assurance that SDIO programs will be adequately protected against fraud, waste, or mismanagement and will be operated in accordance with the law.

More specifically, we found some research efforts within the systems analysis and battle management program resulted in inefficiencies because contracts were terminated before the intended work was completed due to SDIO's inadequate direction and planning. In addition, we found that there was inadequate oversight relative to SDIO's management directives. About 47 percent of the total dollar value of the planned research during

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<sup>3</sup>Strategic Defense Initiative Program: Better Management Direction and Controls Needed (GAO/NSIAD-88-26).

most of fiscal year 1986 was not covered by approved directives. Finally, SDIO's internal controls, as required by the Federal Managers' Financial Integrity Act, were deficient, and SDIO had not developed a formal internal management control program.

In responding to our report, SDIO concurred with all the recommendations and informed us that it had completed some of the efforts or had plans to complete efforts to correct the problems we identified.

This concludes my prepared testimony. At this time, I will respond to any questions you may have.

CONTRACT REPORTING SYSTEM

In September 1985, SDIO implemented a contract reporting system to collect essential contract data from its executing organizations to respond to requests for information from outside organizations. However, we found that the system still lacks complete data on the types of contractors and the extent of competition on all contracts because the executing organizations have not provided SDIO with complete data on the contracts. The executing organizations are required to report their respective SDI contracting actions to DOD's DD-350 system--the official DOD system for collecting statistical data on DOD prime contracts over \$25,000--without identifying them as SDI contract awards. Recently, SDIO has recognized that there is a need to formally identify SDI contract actions in the DD-350 system and is taking action to incorporate a specific identifier for SDI procurements in the system. This should help provide SDIO with contract information it needs to respond to requests.

CONTRACT REPORTING

In 1985 the Director of SDIO realized that SDIO needed a contract reporting system that would provide it with contract data from its executing organizations. SDIO would use the data to respond to requests from the Office of the President, the Congress, and the

press for SDI contract information. SDIO did not intend to use this system for management of the SDI program. In September 1985, SDIO implemented its contract reporting system to provide the essential data needed on prime contract awards made since the beginning of fiscal year 1985.

The system provides for the reporting of contract data to SDIO by its executing organizations on a monthly basis. These organizations are the military services, the Defense Nuclear Agency, and the Defense Advanced Research Projects Agency. The contract data includes contract numbers, contractors' names, types of contractors, extent of competition on the contracts, and the title of the project.

The codes for the types of contractors provide a breakdown into several classifications such as large or small business firms performing in the United States, educational institutions, nonprofit organizations, and foreign firms. The system also contains codes to identify the contract awards by competitive or noncompetitive contract actions. This coding is based on those categories prescribed by DOD for reporting its procurement statistics in the DD-350 system, such as price competition, design or technical competition, and follow-on awards.



CONTRACT REPORTING SYSTEM  
LACKS COMPLETE INFORMATION

In our July 1986 report, Strategic Defense Initiative Program: Information on Contracting and Other Activities (GAO/NSIAD-86-151FS), we reported that the executing organizations had not reported complete contract information on the types of contractors and the extent of competition for all contract awards in the system. At that time, SDIO officials stated that they were aware that the contract information was incomplete and that they had informed the executing organizations of the need to provide complete contract information, including additional data on the contracts already reported.

In response to your request to update certain statistical information presented in our report, we obtained the most current information in SDIO's contract reporting system on the same essential contract data as in our previous review and analyzed the extent of contract data available for the contract awards reported. Complete data still were not available for all the reported contract awards to identify the extent of competition and types of contractors.

Tables I.1 through I.9 show the extent of coding in the system for types of contractors and the extent of competition on reported contract awards. The statistics in the tables are by fiscal year,

since SDIO's system identifies the obligations by fiscal year appropriations. In summary, we found the following.

- The system shows that about \$4.6 billion in fiscal years 1985 through 1987 funds were obligated on contract awards. These contracts included initial, follow-on, or continuing contract awards for the SDI program.
- The types of contractors that received contract awards totaling about \$4.5 billion, or 98 percent of the obligated funds, were not identified. Consequently, we were unable to provide any meaningful classification of contract awards by types of contractors.
- The extent of competition was not identified in the system for contract awards totaling about \$1.7 billion, or 37 percent of the obligated funds.
- The executing organizations coded the other \$2.9 billion, or 63 percent, of the contract awards for the extent of competition.

In addition, tables I.7 through I.9 show the breakout of obligations by fiscal year on contracts awarded competitively and noncompetitively. However, these procurement statistics cannot be considered representative of the extent of competition on all SDI

contract awards because a significant number of contracts were not identified as to the extent of competition.

#### EFFORTS TO IMPROVE CONTRACTOR INFORMATION

SDIO has recently taken actions to more completely identify SDI funded contract awards, including the identification of types of contractors awarded SDI contracts and the extent of competition in the SDI program.

In January 1988, SDIO requested and obtained verbal approval from DOD's Washington Headquarters Services to add a specific code to identify SDI contract awards in DOD's DD-350 system. This system provides for the contract reporting of procurement information on all DOD prime contract awards above \$25,000 and includes most of the essential contract data previously identified by SDIO for its contract reporting system.

In February 1988, SDIO met with its executing organizations to discuss the status of the contract reporting system and use of the DD-350 system. It was decided that the executing organizations would continue to report contract data to SDIO until the end of the second quarter of fiscal year 1989, at which time the DD-350 system will be relied upon. According to SDIO officials, the current information in SDIO's contract reporting system will be retained as

historical data, and the missing data will not be obtained because the cost of such an effort could not be justified.

Table I.1: Extent of Competition Coding for Fiscal Year 1985  
Obligations

| <u>Classification</u>                                      | <u>No. of<br/>Contracts<sup>a</sup></u> | <u>Obligations</u> |                |
|--|---|--------------------|----------------|
|  |   | <u>Amount</u>      | <u>Percent</u> |
|  |   | (millions)         |                |
| Contract awards<br>indicating extent<br>of competition     | 589                                     | \$ 626.6           | 54.5           |
| Contract awards not<br>indicating extent of<br>competition | <u>439</u>                              | <u>523.2</u>       | <u>45.5</u>    |
| Total  | <u>1,028</u>                            | <u>\$1,149.8</u>   | <u>100.0</u>   |

<sup>a</sup>The number of contracts may be greater than shown because \$66.8 million in contract actions not indicating extent of competition do not have a contract number to enable a determination of the total number of contract awards.

Table I.2: Extent of Competition Coding for Fiscal Year 1986  
Obligations

| <u>Classification</u>                                      | <u>No. of<br/>Contracts<sup>a</sup></u> | <u>Obligations</u> |                |
|--|---|--------------------|----------------|
|  |   | <u>Amount</u>      | <u>Percent</u> |
|  |   | (millions)         |                |
| Contract awards<br>indicating extent<br>of competition     | 682                                     | \$1,072.4          | 62.5           |
| Contract awards not<br>indicating extent of<br>competition | <u>502</u>                              | <u>643.5</u>       | <u>37.5</u>    |
| Total  | <u>1,184</u>                            | <u>\$1,715.9</u>   | <u>100.0</u>   |

<sup>a</sup>The number of contracts may be greater than shown because \$265.8 million in contract actions not indicating extent of competition do not have a contract number to enable a determination of the total number of contract awards.

Table I.3: Extent of Competition Coding for Fiscal Year 1987  
Obligations

| <u>Classification</u>                                      | <u>No. of<br/>Contracts<sup>a</sup></u> | <u>Obligations</u> |                |
|--|---|--------------------|----------------|
|  |   | <u>Amount</u>      | <u>Percent</u> |
|  |   | (millions)         |                |
| Contract awards<br>indicating extent<br>of competition     | 586                                     | \$1,175.3          | 66.6           |
| Contract awards not<br>indicating extent of<br>competition | <u>354</u>                              | <u>589.3</u>       | <u>33.4</u>    |
| Total  | <u>940</u>                              | <u>\$1,764.6</u>   | <u>100.0</u>   |

<sup>a</sup>The number of contracts may be greater than shown because \$241.2 million in contract actions not indicating extent of competition do not have a contract number to enable a determination of the total number of contract awards.

Table I.4: Extent of Types of Contractors Coding for Fiscal Year 1985 Obligations

| <u>Classification</u>                                     | <u>No. of<br/>Contracts<sup>a</sup></u> | <u>Obligations</u> |                |
|---|---|--------------------|----------------|
|   |   | <u>Amount</u>      | <u>Percent</u> |
|   |   | (millions)         |                |
| Contract awards<br>not indicating types<br>of contractors | 935                                     | \$1,116.8          | 97.1           |
| Contract awards<br>indicating types of<br>contractors     | <u>93</u>                               | <u>33.0</u>        | <u>2.9</u>     |
| Total   | <u>1,028</u>                            | <u>\$1,149.8</u>   | <u>100.0</u>   |

<sup>a</sup>The number of contracts may be greater than shown because \$66.8 million in contract actions do not have a contract number to enable a determination of the total number of contract awards.



Table I.5: Extent of Types of Contractors Coding for Fiscal Year 1986 Obligations

| <u>Classification</u>                                     | <u>No. of<br/>Contracts<sup>a</sup></u> | <u>Obligations</u> |                |
|---|---|--------------------|----------------|
|   |   | <u>Amount</u>      | <u>Percent</u> |
|   |   | (millions)         |                |
| Contract awards<br>not indicating types<br>of contractors | 1,076                                   | \$1,684.8          | 98.2           |
| Contract awards<br>indicating types of<br>contractors     | <u>108</u>                              | <u>31.1</u>        | <u>1.8</u>     |
| Total   | <u>1,184</u>                            | <u>\$1,715.9</u>   | <u>100.0</u>   |

<sup>a</sup>The number of contracts may be greater than shown because \$265.8 million in contract actions not indicating types of contractors do not have a contract number to enable a determination of the total number of contract awards.

Table I.6: Extent of Types of Contractors Coding for Fiscal Year 1987 Obligations

| <u>Classification</u>                                     | <u>No. of<br/>Contracts<sup>a</sup></u> | <u>Obligations</u> |                |
|---|---|--------------------|----------------|
|   |   | <u>Amount</u>      | <u>Percent</u> |
|   |   | (millions)         |                |
| Contract awards<br>not indicating types<br>of contractors | 855                                     | \$1,710.4          | 96.9           |
| Contract awards<br>indicating types of<br>contractors     | <u>85</u>                               | <u>54.2</u>        | <u>3.1</u>     |
| Total   | <u>940</u>                              | <u>\$1,764.6</u>   | <u>100.0</u>   |

<sup>a</sup>The number of contracts may be greater than shown because \$241.2 million in contract actions not indicating types of contractors do not have a contract number to enable a determination of the total number of contract awards.

Table I.7: Fiscal Year 1985 Obligations by Extent of Competition

|  | <u>Contracts</u> |                | <u>Obligations</u>          |                |
|--|------------------|----------------|-----------------------------|----------------|
|  | <u>Number</u>    | <u>Percent</u> | <u>Amount</u><br>(millions) | <u>Percent</u> |
| Competitive:   |                  |                |                             |                |
| Price competition                                      | 6                |                | \$ .9                       |                |
| Design or technical competition                        | <u>417</u>       |                | <u>407.5</u>                |                |
| Total  | <u>423</u>       | <u>62.9</u>    | <u>\$408.4</u>              | <u>63.1</u>    |
| Noncompetitive:  |                  |                |                             |                |
| Follow-on after price competition                      | 7                |                | \$ 20.0                     |                |
| Follow-on after design or technical competition        | 34               |                | 94.3                        |                |
| Other noncompetitive                                   | 125              |                | 103.9                       |                |
| Noncompetitive--contracts excluded by DOD <sup>a</sup> | <u>84</u>        |                | <u>21.1</u>                 |                |
| Total  | <u>250</u>       | <u>37.1</u>    | <u>\$239.3</u>              | <u>36.9</u>    |

<sup>a</sup>84 contracts with total fiscal year obligations of \$21.1 million were not coded by DOD because they include awards to nonprofit organizations and awards pursuant to section 8(a) of the Small Business Act. These contracts are noncompetitive awards.

Table I.8: Fiscal Year 1986 Obligations by Extent of Competition

|  | <u>Contracts</u> |                | <u>Obligations</u> |                |
|--|------------------|----------------|--------------------|----------------|
|  | <u>Number</u>    | <u>Percent</u> | <u>Amount</u>      | <u>Percent</u> |
|  |                  |                | (millions)         |                |
| Competitive:   |                  |                |                    |                |
| Price competition                                      | 6                |                | \$ 10.5            |                |
| Design or technical competition                        | <u>564</u>       |                | <u>855.6</u>       |                |
| Total  | <u>570</u>       | <u>73.0</u>    | <u>\$866.1</u>     | <u>77.7</u>    |
| Noncompetitive:  |                  |                |                    |                |
| Follow-on after design or technical competition        | 18               |                | \$103.9            |                |
| Other noncompetitive                                   | 94               |                | 102.4              |                |
| Noncompetitive--contracts excluded by DOD <sup>a</sup> | <u>99</u>        |                | <u>42.9</u>        |                |
| Total  | <u>211</u>       | <u>27.0</u>    | <u>\$249.2</u>     | <u>22.3</u>    |

<sup>a</sup>99 contracts with total fiscal year obligations of \$42.9 million were not coded by DOD because they include awards to nonprofit organizations and awards pursuant to section 8(a) of the Small Business Act. These contracts are noncompetitive awards.

Table I.9: Fiscal Year 1987 Obligations by Extent of Competition

|  | <u>Contracts</u> |                | <u>Obligations</u> |                |
|--|------------------|----------------|--------------------|----------------|
|  | <u>Number</u>    | <u>Percent</u> | <u>Amount</u>      | <u>Percent</u> |
|  |                  |                | (millions)         |                |
| Competitive:   |                  |                |                    |                |
| Price competition                                      | 8                |                | \$ 11.7            |                |
| Design or technical competition                        | <u>513</u>       |                | <u>930.1</u>       |                |
| Total  | <u>521</u>       | <u>77.6</u>    | <u>\$941.8</u>     | <u>76.5</u>    |
| Noncompetitive:  |                  |                |                    |                |
| Follow-on after design or technical competition        | 16               |                | \$147.3            |                |
| Other noncompetitive                                   | 49               |                | 86.2               |                |
| Noncompetitive--contracts excluded by DOD <sup>a</sup> | <u>85</u>        |                | <u>56.5</u>        |                |
| Total  | <u>150</u>       | <u>22.4</u>    | <u>\$290.0</u>     | <u>23.5</u>    |

<sup>a</sup>85 contracts with total fiscal year obligations of \$56.5 million were not coded by DOD because they include awards to nonprofit organizations and awards pursuant to section 8(a) of the Small Business Act. These contracts are noncompetitive awards.